VAs: In Search of a Winning Formula

By Kerry Pechter *Tue, Jul 5, 2011*

VA issuers should take a cue from Michael Jordan, and realize that team players win more championships than individual stars, advises Bing Waldert of Cerulli Associates.

For years, life insurers have tried to convince more financial advisors to buy variable annuities for their clients. The insurers think it's a no-brainer: clients seem to be clamoring for the blend of guaranteed income and liquidity that VA withdrawal riders offer.

But most independent advisors remain skeptical. A new Cerulli Associates report, "Quantitative Update: Annuities and Insurance 2011," shows that a small minority of commission-driven advisors still drives VA sales.

Indeed, Cerulli believes that VA marketers probably won't get much traction with fee-based advisors unless they stop pushing product and start demonstrating how to integrate VAs into a multi-faceted retirement strategy.

"[The VA issuers] have adapted their pricing to the fee-based advisor, but they haven't changed how they do business," said Bing Waldert, Cerulli's research director, in an interview. "There's been so much focus on product development and one-upmanship. But they haven't necessarily tied the product to client solutions. It's still about product."

"The discussion between [insurance company] wholesalers and advisors is, 'Here's how our product differs from the others,' not 'Here's how our product creates a better client outcome. And therefore they aren't reaching the holistic-minded advisor," Waldert said.

Waldert compared variable annuities to Michael Jordan in his early years, before he became a mature team player. Instead of trying to sell VAs to advisors as a one-product solution for all their clients' retirement risks, insurers and their wholesalers should show advisors how VAs can complement other products in an overall retirement income strategy.

Counter-intuitively, VAs could attract more assets overall by trying to get less from each client, Waldert said: "Jordan didn't win a championship until he learned to pass the ball."

This blind spot turns off the most sophisticated advisors and limits the VA industry's potential, he said. And that's why Cerulli's report, whose highlights were released last week, was not particularly bullish on VAs. Its most dour conclusion: the "small portion of the advisor population representing the variable annuity industry leads one to question the stability of future growth in the industry."

Here are some of Cerulli's findings:

• Variable annuity sales through independent advisors grew from 24% of variable annuity sales in 1999 to

34% in 2010. Captive agency share of variable annuity sales shrank from 37% in 1999 to 33% in 2010.

• Variable annuities (VAs) represent 8% of advisor assets. The insurance and independent broker/dealer (IBD) channels have the highest allocation of advisor assets in VAs at 16% and 13%, respectively. Cerulli projects advisor mutual fund allocation to grow greater than 3%; the greatest growth will be in the regionals and little growth in registered investment advisors (RIAs).

• Of the 334,160 retail financial advisors, just more than one-third (35%) of advisors actively recommended variable annuities (VAs) in the last year.

• Annuity advocates (advisors who produce 12 or more contacts a year) comprise a mere 18% of the advisor population. In addition, they generate approximately 68% of advisor-sold VA sales (excluding TIAA-CREF and direct sales).

• The 25 largest VA issuers control nearly 90,000 advisors, representing more than one-quarter of practicing financial advisors. Jackson National, Ameriprise, and AIG/SunAmerica stand out as top VA issuers that also control massive independent broker/dealer (IBD) sales forces.

Part of the problem for VA issuers, Waldert said, is that a lot of advisors think they and their clients can live without that product. According to Cerulli's study, 44% of advisors "believe they can duplicate retirement income funds using products at their disposal."

This do-it-yourself ethic among advisors apparently includes a belief that GLWBs are superfluous.

"It's not as if nobody has ever retired before," Waldert said. "Financial advisors have had an average of 15 years' experience," he added. "They've seen their clients through two bear markets in 10 years. They don't feel they need to be trained to take retirement income. For VAs, the message has to be changed to, we can produce 'better retirement income.'"